

**HUD CONSUMER BULLETIN**

*Seniors Stay at Home*

**NURSING  
HOME  
MORTGAGE  
INSURANCE**



**U.S. DEPARTMENT OF HOUSING  
AND URBAN DEVELOPMENT  
Washington, D.C. 20410**

*Programs are  
part of private  
political needs  
through*

*B. Johnson*

## **Purpose of Nursing-Home Program**

Under Section 232 of the National Housing Act the Federal Housing Administration insures mortgages on qualified nursing homes. The aim of this mortgage insurance program is to help provide needed nursing homes that are acceptable as security for the mortgages and adequate for the safety and proper care of occupants.

The program is designed to work well in the building of new nursing homes and in the rehabilitation of existing ones. Toward that end, FHA regulations, procedures, and property standards for nursing homes are kept as simple as possible.

All nursing homes developed under this program are built by private builders. They are owned and managed by private concerns or individuals. They are financed with loans of private capital made by FHA-approved lenders, who in turn are insured by FHA against loss on the loans.

## **Meaning of Nursing Home**

The nursing home is a facility privately owned and run for profit (a proprietary facility) or owned by a private nonprofit corporation or association, and:

- Licensed or regulated by the State (or authorized State subdivision) in which it is located.
- For people who, though not acutely ill or in need of hospital care, do need skilled nursing care and related medical services.
- One in which such care and services are prescribed by, or are performed under the general direction of, persons licensed by the State to provide them.

Projects used specifically as hospitals, homes for the aged, clinics, or diagnostic or treatment centers are not considered as nursing homes and are therefore not acceptable for FHA mortgage insurance under this program. (Under another program, provided by Title XI of the National Hous-

ing Act, FHA insures mortgages for group practice facilities; and housing for the elderly is FHA-financed under Section 231 of the Act.)

### **State Certification**

Before insuring any mortgage under Section 232, FHA must have, from the appropriate agency of the State in which the nursing home is to be located:

- Certification that there is a need for the home.
- Certification that there are in force in the State (or its political subdivision) reasonable minimum standards for licensing and operating nursing homes.
- Satisfactory assurance that such standards will be applied and enforced with respect to any nursing home in the State on which FHA provides mortgage insurance. FHA relies on the various States to enforce their license requirements.

### **FHA Analysis of Project and Sponsor**

• FHA does not decide the amount patients may be charged. That is up to the management of the nursing home. FHA's concern with the income of a project or with charges to patients is:

• That the rates, space, and services offered are competitive with those of other nursing homes in the area.

+ the charges are within reach of  
the kind of accommoda-  
tions offered.

rating analysis, FHA  
of the project is

The net income

of the project

to meet the debt service  
requirements of the mortgage and provide  
a return of and on the equity investment  
of the mortgagor.

In regard to the sponsor, the FHA mortgage credit analysis covers:

- Character and reputation.
- Ability and experience for developing, building, and operating (directly or indirectly) a nursing home of the size and type proposed.
- Financial capacity to complete, equip, and furnish the proposed home in accordance with FHA regulations and with the needs of the people for whom it is intended, and to provide operating capital when necessary.

### **Eligible Mortgagors**

The proprietary mortgagor may be a corporation, a trust, a partnership, or an individual approved by FHA.

The nonprofit mortgagor may be a private corporation or association. It must be organized for purposes other than the making of profit for itself or for persons identified with it. The organization must be in no way controlled or directed by persons or firms seeking to derive profit from it.

The mortgagor must be subject to a regulatory agreement. A corporate mortgagor may be regulated also by charter provision.

The mortgagor may lease the project to a nursing-home operator on terms approved by FHA. Whether the mortgagor runs the home or leases it, the facility must operate under license and inspection by the State or locality.

### **Eligible Mortgages**

The mortgage may cover either proposed new buildings or existing buildings rehabilitated. New construction does not involve rehabilitation of existing structures. The facility must include at least 20 beds. Construction may be made during construction.

A combination FHA and Federal grant or loan program of the Department of Health, Education, and Welfare under the Hill-Burton Act is permissible.

The mortgage amount may include the cost of built-in fixtures and equipment which become a part of the realty. These are such items as wardrobes, built-in equipment in non-commercial central kitchens, snack bars, pantries, serving stations or counters, and nursing stations (including such equipment in work or utility rooms). The cost of special medical and therapy equipment may not be included.

The top mortgage amount set by law is \$12.5 million per project. Within that limit the highest insured mortgage amount is 90 percent of the FHA-estimated value of the project when proposed improvements are completed. On a rehabilitation project, the mortgage amount may not exceed the value of the property when the rehabilitation is completed. The mortgage on a nursing home to be rehabilitated may be further limited according to the cost of the new improvements, or to whether the property is owned outright or has a mortgage already on it or is to be acquired.

The length of the mortgage term can be no more than 20 years. The maximum permissible interest rate is 6 percent, and the FHA mortgage insurance premium is  $\frac{1}{2}$  of 1 percent annually on the mortgage amount outstanding.

### **Fees and Charges**

Fees and charges included in project cost are:

• A application fee of \$1.50 per \$1,000 amount applied for.

• Commitment fee which, when loan fee, will come to a face amount of the commitment.

• Inspection fee of \$5.00 per \$1,000 of loan amount set forth in the commitment.

• Lender's initial service charge, not to exceed 2 percent of the original mortgage amount.

The application and commitment fees are

paid by the mortgagor initially, but reimbursement is made from mortgage proceeds at the time of initial closing.

### **Special Requirements**

Certain working capital, operating fund, cost certification, and labor standard requirements must be met.

- For proprietary nursing homes only, the FHA insuring office director, on the basis of the situation in the particular case, determines the amount of cash working capital required.
- The FHA insuring office director, on an individual case basis, determines how much in the way of an operating fund is required to meet the project's expenses during the time deemed necessary for the project to attain sustaining occupancy.
- Cost certification, indicating actual costs of all improvements, is required by FHA upon completion of the improvements.
- There must be adherence to prevailing labor standards and wage rates applicable to construction work performed.

### **Minimum Property Standards**

"FHA Minimum Property Standards for Nursing Homes," HUD PG-28, sets forth the minimum criteria for the planning, construction, and development of a property that is to serve as security for an insured mortgage on a nursing home. Would-be sponsors of a nursing-home project should get a copy of this publication from their local FHA insuring office.

These standards apply to all new construction projects and, with specified variations permitted in certain requirements, to all rehabilitation projects. They apply only to the individual property within its property lines, not to improvements off the plot—except for the provision of streets for vehicular access, and essential services and facilities at the site, when the property is accepted for insurance.

They are intended to obtain in a property the characteristics that:

- Assure it is, and will remain, useful, durable, and desirable.
- Comply with basic safety and health requirements.
- Provide adequate facilities for efficient care and nursing services in conformance with the purpose of Section 232.

They include standards for fire protection, room sizes, number of beds, nursing units, door and corridor width, ceiling height, closet space, mechanical equipment, and so on.

### **Procedure for Sponsors**

The nursing-home program is administered by local FHA insuring offices. Sponsors wanting to use this program should consult with their lender and the FHA office that serves the area of the proposed nursing-home project. This is the first step—and a most important one—for sponsors to take before making formal application for an insured mortgage.

At the first interview on the proposed project, sponsors should give FHA:

- Full information about the property.
- An outline of a definite care and service plan for occupants of the nursing home.
- An indication of their own qualifications to develop and carry out the project.

If the proposal appears to be acceptable,  
..... then request, for pre-application

- An acceptable Certificate of Need on FHA Form 2576 or assurance that it is forthcoming.
- Form 2538, Previous Multifamily Participation Certification.

### **Application for Mortgage Insurance**

When advised by the FHA to apply for an insured mortgage, sponsors should obtain the appropriate FHA application form from an approved lender. They should then fill it in, attach exhibits called for in the form, and submit the entire package to the lender for submission to the FHA insuring office.

When it receives the application, FIA takes the processing steps required before issuing a commitment and before endorsing the mortgage for insurance.

### **Equal Opportunity in Housing**

FHA regulations under the President's Executive Order 11063 of November 20, 1962, require that housing provided with FHA assistance be made available without discrimination because of race, color, creed, or national origin.

The regulations prohibit any person, firm, or group receiving the benefits of FHA mortgage insurance or doing business with FHA from practicing such discrimination in lending or in the sale, rental, or other disposition of the property. Violations may result in discontinuation of FHA assistance.

One- or two-family dwellings which have been occupied by the owner are exempt from the regulations; but if the purchaser of such a home wishes to finance it with an FHA-insured mortgage the lender may not refuse to make the loan because of the buyer's race, color, creed, or national origin.

### The FHA in Brief

Since its establishment in 1934, the Federal Housing Administration has written mortgage and loan insurance amounting to well over a hundred billion dollars. This amount covers mortgage insurance on millions of homes, on more than a million living units in multifamily projects, and on many millions of property improvement loans. Altogether, FHA has helped between 35 million and 40 million families to improve their housing standards and conditions.

Congress provided the FHA mortgage and loan insurance system to help improve housing standards, to promote the use of sound financing methods, and to help keep the mortgage market steady. FHA supports itself through income derived from fees, insurance premiums, and investments. Its insurance reserves are well over a billion dollars.

All loans insured under FHA programs are made by private lenders. FHA does not lend money or build housing. The first programs dealt with insured home-improvement loans, home-mortgage loans, and rental-housing mortgage loans. Additional programs cover insurance of: mortgages to develop land, to finance group practice facilities, and to provide homes for servicemen, housing for people of low and moderate income, housing in urban-renewal areas, housing for the elderly or handicapped, nursing homes, cooperative housing, condominiums, experimental housing, military housing; and loans for major home improvements. Also, FHA administers the rent supplement program of the Department of Housing and Urban Development.

FHA has had a marked influence on the location, volume, and kind of housing built in the United States. It has helped to make the low-downpayment, long-term, fully amortized mortgage the standard in mortgage lending.

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